

CHAPTER 8

AUDITING

Annual Audit

The financial condition and transactions of all school offices in school districts shall be examined at least once each year. The examination shall cover the fiscal year next preceding the year in which the audit is conducted. The examination of school offices shall include an audit of all school funds, the certified annual financial report (CAR), and the certified enrollment as provided in Iowa Code section 257.6. Differences in certified enrollment shall be reported to the department of management. Examinations shall be made as determined by the governmental subdivision either by the auditor of state or by certified public accountants, certified in the state of Iowa, and they shall be paid from the proper public funds of the governmental subdivision (11.6(1)(a)).

The department of management shall adjust the enrollment of the school district for the audit year based upon reports filed under section 11.6, and shall further adjust the budget of the second year succeeding the audit year for the property tax and state aid portions of the reported differences in enrollments for the year succeeding the audit year (257.6).

A school district desiring to contract with or employ certified public accountants (CPA) shall utilize procedures which include a request for proposals (RFP) (11.6(2)(a)).

In conjunction with the audit of the governmental subdivision required under section 11.6, the person performing the audit shall also perform tests for compliance with the investment policy of a reasonable number of investment transactions in relation to the total investments and quantity of transactions in the period audited. The results of the compliance testing shall be reported in accordance with generally accepted auditing standards (GAAS). The person performing the audit may also make recommendations for changes to investment policy or practices. The governmental subdivision is responsible for the remedy of reported noncompliance with its policy or practices (11.6(1)(b)(1)).

As part of its audit, the governmental subdivision is responsible for obtaining and providing to the person performing the audit the audited financial statements and related report on internal control structure of outside persons, performing any of the following during the period under audit for the governmental subdivision:

- a. Investing public funds.
- b. Advising on the investment of public funds.
- c. Directing the deposit or investment of public funds.
- d. Acting in a fiduciary capacity for the governmental subdivision.

The audit under section 11.6 shall not be certified until all material information required by 11.6(1)(b)(2) is reviewed by the person performing the audit (11.6(1)(b)(2)).

The auditor of state may at any time cause to be made a complete or partial reaudit of the financial condition and transactions of any school corporation or an office of any school corporation if one of the following conditions exists:

- a. The auditor of state has probable cause to believe such action is necessary in the public interest because of a material deficiency in an audit of the governmental subdivision filed with the auditor of state or because of a substantial failure of the audit to comply with the standards and procedures established and published by the auditor of state.
- b. The auditor of state receives from an elected official or employee of the governmental subdivision a written request for a complete or partial reaudit of the governmental subdivision.
- c. The auditor of state receives a petition signed by at least fifty eligible electors of the governmental subdivision requesting a complete or partial reaudit of the governmental subdivision (11.6(4)).

The director of the department of education shall request a state audit of the accounts of a school district, AEA, school official, or school employee handling school funds when it is apparent that an audit should be made (256.9(19)).

While either the state appeal board or the school budget review committee may amend a school district budget to avoid a misuse of management levy funds, the primary responsibility for identifying misuse of this levy rest with the audit function. When a misuse is disclosed in an audit or reaudit report, appropriate remedial action may be taken by affected taxpayers, the county attorney or the Attorney General. The Citizens' Aide may also pursue investigation as to whether a misuse of school district funds has occurred, making appropriate referrals if a misuse is found (OAG #93-8-3).

The auditor of state may, within three years of filing, during normal business hours upon reasonable notice of at least twenty-four hours, review the audit work papers prepared by a certified public accountant in the performance of an audit or examination (11.6(5)).

The state auditor possesses discretion to conduct a complete or partial reaudit once statutory prerequisites are met. The auditor determines the extent of the audit and means or methods to use (OAG #92-1-2(L)).

An audit required by 11.6 shall be completed within nine months following the end of the fiscal year that is subject to the audit (11.6(6)).

CPAs shall immediately notify the auditor of state regarding any suspected embezzlement or theft (11.6(7)).

Auditors shall have the right while making the examinations, to examine all papers, books, records, and documents of any of the officers and shall have the right, in the presence of the custodian or the custodian's deputy, to have access to the cash drawers and cash in the official custody of such officer, and a like right, during business hours, to examine the public accounts of the school in any depository which has public funds in its custody pursuant to the law (11.10).

All examinations shall be made without notice to the office examined. On every examination inquiry shall be made as to the financial condition and resources of the school; whether the cost price for improvements and material in the school is in excess of the cost price for like things in other schools of the state; whether the school authorities are complying with the law; and whether the accounts and reports are being accurately kept (11.11).

All reports shall be open to public inspection, including copies on file in the office of the state auditor, and refusal on the part of any public official to permit such inspection when such reports have been filed with the state auditor, shall constitute a simple misdemeanor. Notice that the report has been filed shall be forwarded immediately to each newspaper, radio station or television station located in the school district which is under investigation or audit; except that if there is no newspaper, radio station or television station located therein, the notice shall be sent to the official newspapers of the county. Failure to file the report with the auditor of state within thirty days after receiving notification of not receiving the audit report shall bar the accountant from making any governmental subdivision audits under section 11.6 for the following fiscal year (11.19).

The results of the annual audit of all district funds shall be made part of the official records of the board (IAC 281--12.3(10)).

The school district or AEA, or the CPA or state auditor who performs the annual audit of the school district or AEA, shall provide the following copies:

1. Two complete copies to the Office of the Auditor of State.
2. One complete copy to A-133 Compliance Review, School Finance Team, Division of Financial and Information Services, Department of Education, Des Moines, Iowa 50319-0146.

These audit reports shall be filed as soon as possible following completion of the audit, but no later than March 31 following the close of the fiscal year unless an extension has been granted by the auditor of state.

Filing Fees

The auditor of state shall adopt rules to establish and collect a filing fee for the filing of each report of examination conducted pursuant to subsections 1 through 3. The funds collected shall be maintained for use by the office of the auditor of state in performing audits conducted pursuant to subsection 4 and for work paper reviews conducted pursuant to subsection 5 (11.6(10)).

Performance or Operational Audits

A performance or operational audit is a systematic identification of ways to improve efficiency and effectiveness.

Claims Audits

The state appeal board may investigate and collect claims which the state has against municipal or political corporations in the state including school corporations (25.6).

Compliance Audits

A compliance audit is a determination of whether transactions and activities of the entity conform with local, state, and federal laws and regulations. The auditor must evaluate whether a transaction or activity was unallowable, undocumented, unapproved, or unreasonable. Iowa school districts and AEAs are required to have an annual compliance audit. Regardless of federal funding level, these audits must be conducted in accordance with generally accepted auditing standards; Standards for Audits of Governmental Organizations, Programs, Activities, and Functions (Yellow Book); Single Audit Act Amendments of 1996; OMB Circular A-133; and Chapter 11 of the Iowa Code.

A-133 Compliance

In addition to the review of work of independent CPAs conducted by the Office of the Auditor of State, the work of independent and state auditors and the accounting procedures used by school districts, AEAs, and community colleges are also reviewed by the department of education as the cognizant agency for federal funding. This is a requirement on the State of Iowa by the federal government in order for school districts, AEAs, and community colleges to receive federal assistance. In order to avoid a duplication of efforts, the department of education utilizes the existing review process of independent auditors' workpapers conducted by the Office of the Auditor of State for the review required by Circular A-133 of the work of independent CPAs. In the event that it is an audit prepared by a state auditor that is to be reviewed as required by Circular A-133, that review would be conducted by the department of education.

The Single Audit Act of 1984 was amended in 1996 by the U.S. Congress. The Office of Management and Budget (OMB) has withdrawn Circular A-128 and revised Circular A-133 "Audits of States, Local Governments, and Non-Profit Organizations," to include governmental entities previously covered by A-128. The revised circular, which regulates the implementation of the Single Audit Act Amendments of 1996, was released on June 24, 1997.

Department of Education Audit Policy for LEAs and AEAs

All Iowa school districts, AEAs, and community colleges that expend a total of \$300,000 or more in federal awards in any fiscal year will have an annual audit conducted in accordance with OMB Circular A-133 as is required by the Single Audit Act Amendments of 1996.

Agencies expending less than \$300,000 in federal awards in any fiscal year will not be required to have their annual audits conducted in accordance with OMB Circular A-133. Instead, those agencies will have an audit which follows the requirements of Chapter 11 of the Code of Iowa.

The Single Audit Act Amendments of 1996 included language which limited the use of federal money to pay audit costs. The Act stated that agencies expending less than \$300,000 in federal awards in any fiscal year could not charge any of the costs of a Single Audit to federal programs. Agencies expending at least \$300,000 in federal awards in any fiscal year could charge to the federal award a reasonable, proportionate share of the cost of the audit, if the audit was conducted in accordance with the Single Audit Act Amendments of 1996.

Districts, AEAs, and community colleges may be selected for limited scope audits. These audits will be individualized for each agency. Auditors and agencies will be notified by the department of education of which agencies have been selected and what items are to be audited. The format for comments by the auditors is finding, recommendation, response, and conclusion. These comments will be placed at the end of the annual audit report.

The audit report, including all management letters from the auditor, is to be submitted by March 31 or within 30 days after issuance of the auditor's report to the auditee, whichever occurs first. A form may not be submitted in lieu of the audit report.

The exemption from conducting the annual audit in accordance with OMB Circular A-133 will not exempt an agency from compliance with any provision of a federal statute or regulation that requires the agency to maintain records concerning federal awards provided to it or that permits a federal agency, pass-through entity, or the Comptroller General access to such records.

The Director of OMB will review the threshold level of \$300,000 every two years to determine if an upward adjustment is appropriate. When this occurs, the Iowa department of education will also reconsider its threshold level.

Comprehensive Annual Financial Report (CAFR)

A CAFR is a general purpose report intended to meet the needs of a broad range of audiences. It contains financial statements for each of the government funds and account groups and five combined statements prepared in conformity with GAAP and organized into a financial reporting pyramid. It also includes supporting schedules to demonstrate

compliance with legal and contractual provisions, an extensive statistical section, and a letter of transmittal from the CFO. The CAFR has three sections: introductory material, financial, and statistical. The statistical section contains tables showing 3-10 years of comparable data in areas such as, but not limited to:

1. General expenditures by function,
2. General revenues by source,
3. Property tax levies and collections,
4. Assessed and estimated actual value of taxable property,
5. Property tax rates including all overlapping governments,
6. Principal taxpayers,
7. Special assessment billings and collections,
8. Legal debt limit computation,
9. Ratio of net general bonded indebtedness to assessed value and per capita,
10. Ratio of annual debt service for general bonded indebted to total general expenditures,
11. Overlapping debt computation,
12. Revenue bond coverage,
13. Demographics,
14. Property value, construction, and bank deposits,
15. Miscellaneous statistics of interest to district audiences.

Accreditation Audit

The state board shall adopt rules under chapter 17A and a procedure for accrediting all public and nonpublic schools in Iowa offering instruction at any or all levels from the prekindergarten level through grade twelve. The rules of the state board shall require that a multicultural, nonsexist approach is used by schools and school districts. The educational program shall be taught from a multicultural, nonsexist approach. Global perspectives shall be incorporated into all levels of the educational program (256.11).

The state board shall establish an accreditation process for school districts and nonpublic schools seeking accreditation pursuant to this subsection and subsections 11 and 12. By July 1, 1989, all school districts shall meet standards for accreditation. For the school year commencing July 1, 1989, and school years thereafter, the department of education shall use a two-phase process for the continued accreditation of schools and school districts (256.11(10)).

Phase I shall consist of annual monitoring by the department of education of all accredited schools and school districts for compliance with accreditation standards adopted by the state board of education as provided in this section. The phase I monitoring requires that accredited schools and school districts annually complete accreditation compliance forms adopted by the state board and file them with the department of education. Phase I monitoring requires a comprehensive desk audit of all accredited schools and school districts including review of accreditation compliance forms, accreditation visit reports, methods of administration reports, and reports submitted in compliance with sections 280.12 and 280.18 (256.11(10)).

The department shall conduct site visits to schools and school districts to address accreditation issues identified in the desk audit. Such a visit may be conducted by an individual departmental consultant or may be a comprehensive site visit by a team of departmental consultants and other educational professionals. The purpose of a comprehensive site visit is to determine that a district is in compliance with minimum standards and to provide a general assessment of educational practices in a school or school district and make recommendations with regard to the visit findings for the purposes of improving educational practices above the level of minimum compliance. The department shall establish a long-term schedule of site visits that includes visits of all accredited schools and school districts at least once every five years (256.11(10)).

The director shall review the accreditation committee's report, and the response of the school district or nonpublic school, and provide a report and recommendation to the state board along with copies of the accreditation committee's report, the response to the report, and other pertinent information. The state board shall determine whether the school district or nonpublic school shall remain accredited. If the state board determines that a school district or nonpublic school should not remain accredited, the director, in cooperation with the board of directors of the school district, or authorities in charge of the nonpublic school, shall establish a plan prescribing the procedures that must be taken to correct deficiencies in meeting the standards, and shall establish a deadline date for completion of the procedures. The plan is subject to approval of the state board (256.11(11)).

During the period of time specified in the plan for its implementation by a school district or nonpublic school, the school district or nonpublic school remains accredited. The accreditation committee shall revisit the school district or nonpublic school and shall determine whether the deficiencies in the standards have been corrected and shall make a report and recommendation to the director and the state board. The committee recommendation shall specify whether

the school district or school shall remain accredited or under what conditions the district may remain accredited. The conditions may include, but are not limited to, providing temporary oversight authority, operational authority, or both oversight and operational authority to the director and the state board for some or all aspects of the school district operation, in order to bring the school district into compliance with minimum standards. The state board shall review the report and recommendation, may request additional information, and shall determine whether the deficiencies have been corrected. If the deficiencies have not been corrected, and the conditional accreditation alternatives contained in the report are not mutually acceptable to the local board and the state board, the state board shall merge the territory of the school district with one or more contiguous school districts at the end of the school year. Division of assets and liabilities of the school district shall be as provided in sections 275.29 through 275.31. Until the merger is completed, and subject to a decision by the state board of education, the school district shall pay tuition for its resident students to an accredited school district under section 282.24. However, in lieu of merger and payment of tuition by a nonaccredited school district, the state board may place a district under receivership for the remainder of the school year. The receivership shall be under the direct supervision and authority of the director. The decision of whether to merge the school district and require payment of tuition for the district's students or to place the district under receivership shall be based upon a determination by the state board of the best interests of the students, parents, residents of the community, teachers, administrators, and board members of the district and the recommendations of the accreditation committee and the director. If the state board declares a nonpublic school to be nonaccredited, the removal of accreditation shall take effect on the date established by the resolution of the state board, which shall be no later than the end of the school year in which the nonpublic school is declared to be nonaccredited (256.11(12)).